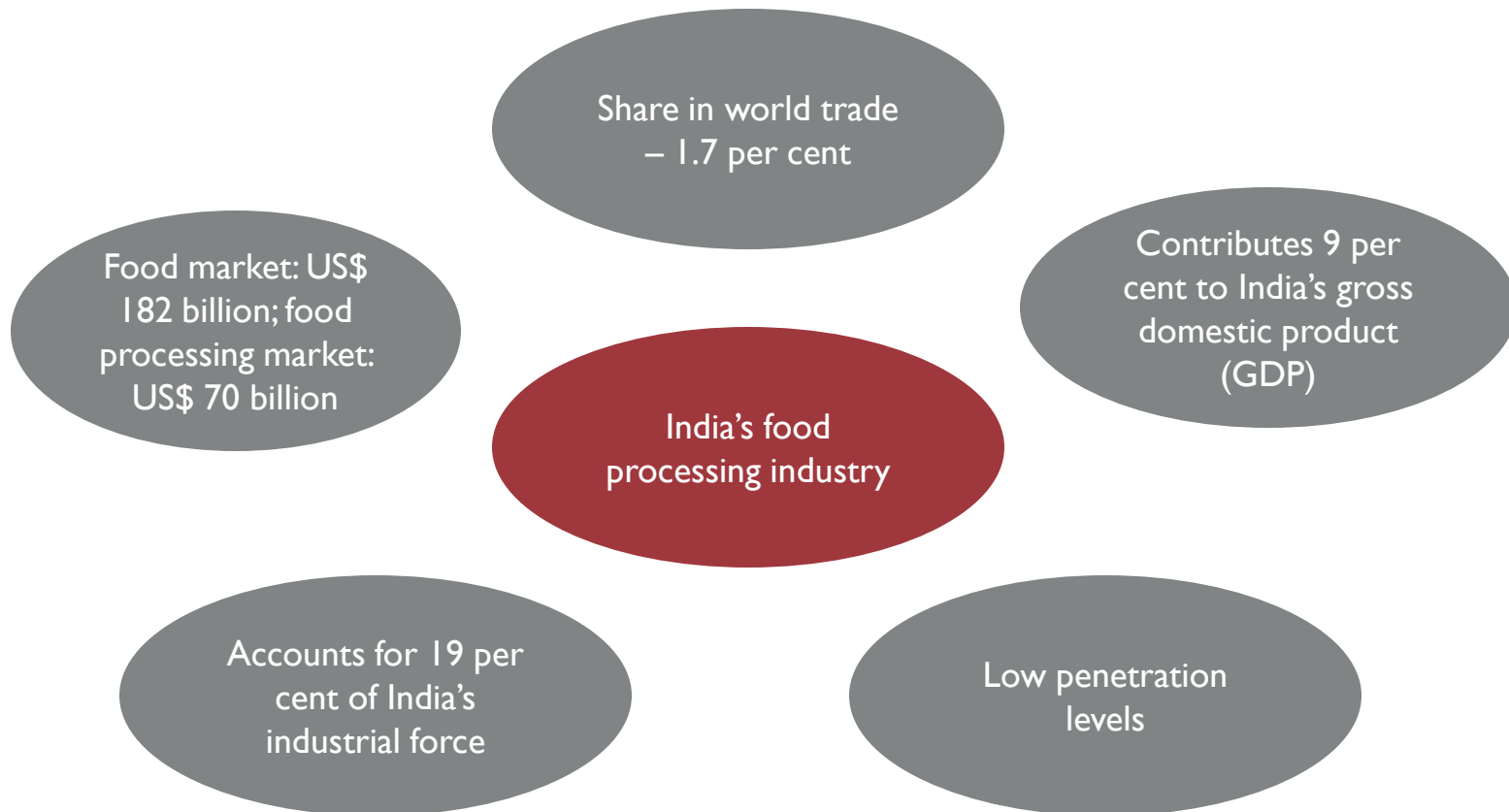




# FOOD PROCESSING

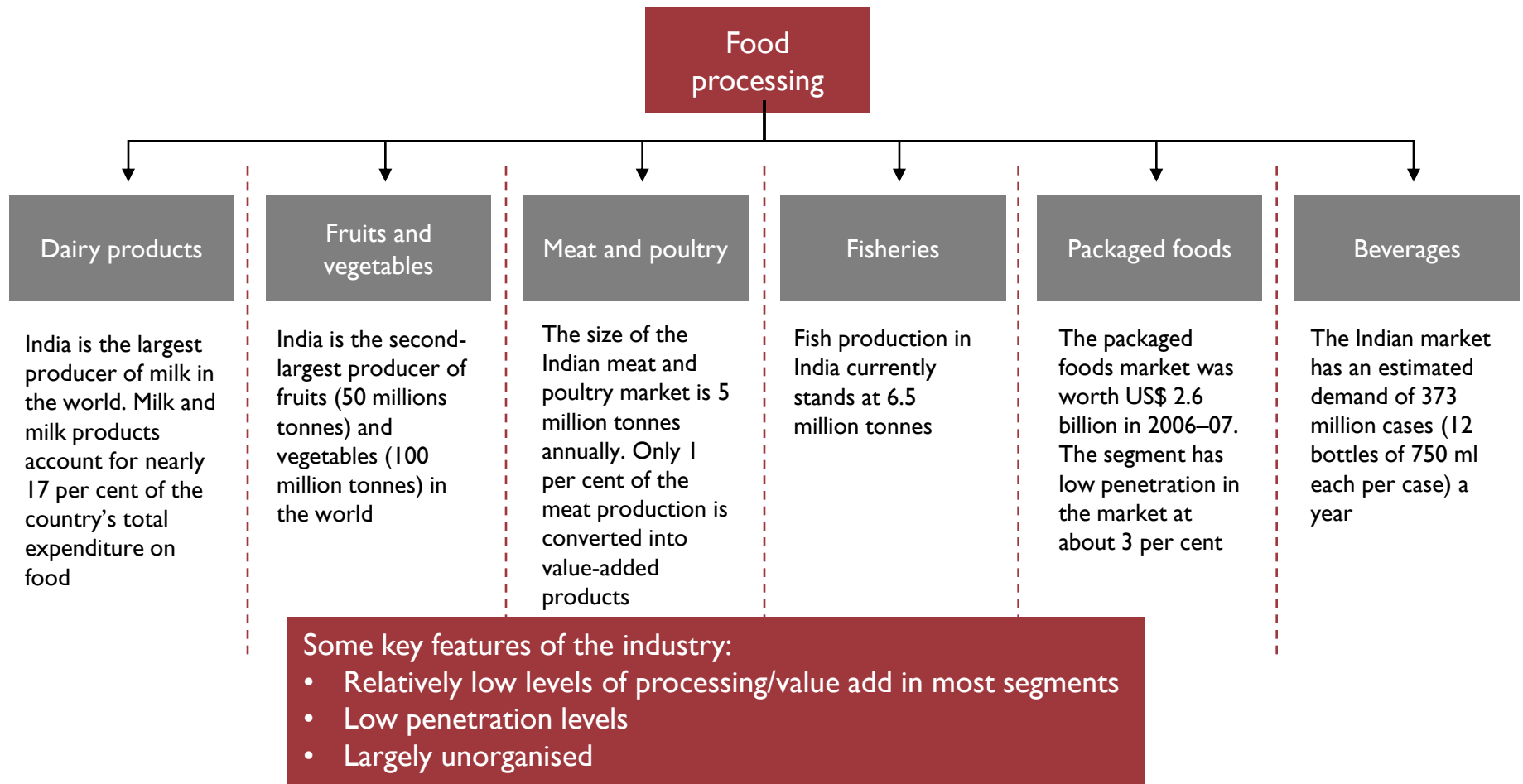
September 2009

## Overview of India's food processing industry



Sources: Ministry of Food Processing Industries, Government of India; Cygnus Research, October 2008; India Food Report 2008  
All figures are for the year 2007–08

## The industry is composed of six key segments



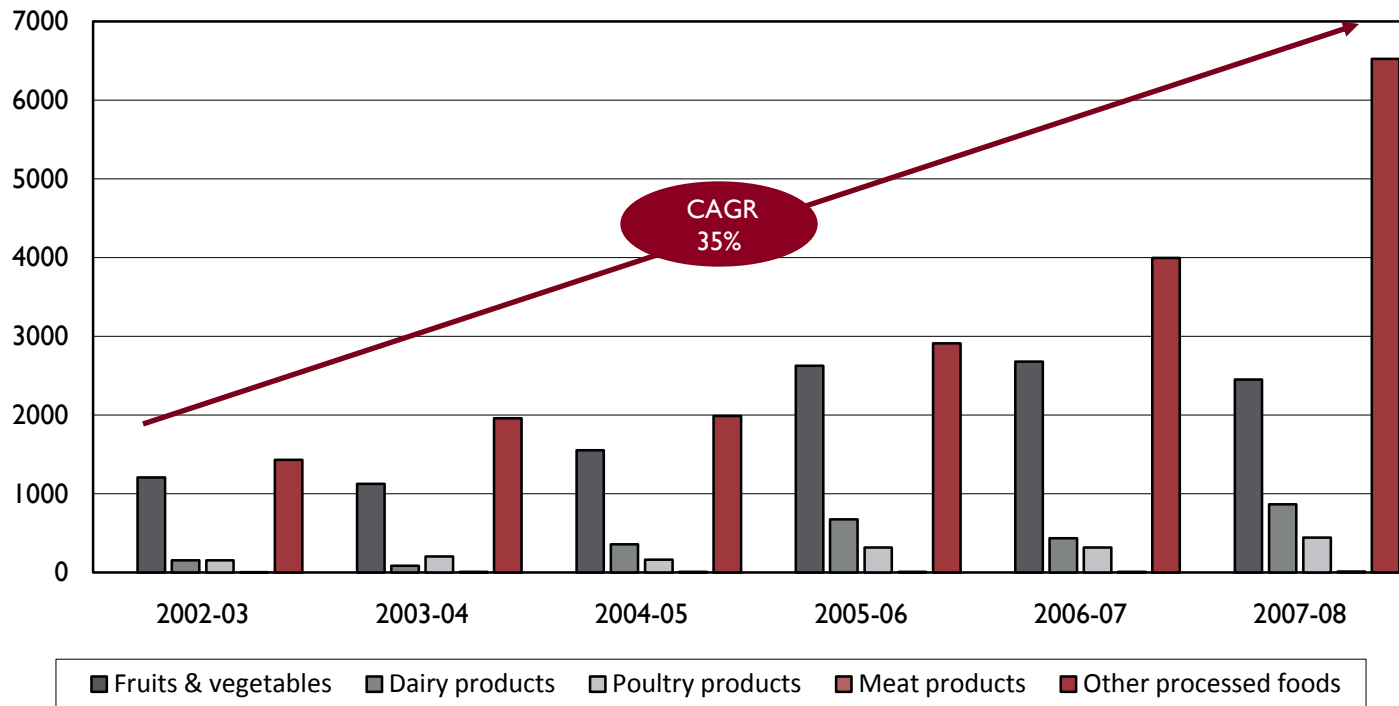
Source: Ministry of Food Processing Industries, GoI, Annual Report 2007-08

## India offers favourable factor conditions for food processing industry

- India ranks first in the world in irrigated land area and second in overall arable land area.
- Ample availability of marine and freshwater fish in its long coast line of over 7,000 km, several large rivers and lakes.
- India ranks first in availability of cattle.
- It ranks first in availability of milk, pulses and tea, and second in fruits, vegetables, rice and wheat.
- Production costs in India are estimated to be 40 per cent lower than in developed markets.

These factors have helped not only the domestic market to grow, but also boosted exports

## Food processing exports have been growing rapidly



Processed food exports constitute nearly 5 per cent of the total exports of the country

Source: Agricultural and Processed Food Products Export Development Authority (APEDA)

## Key regulations and policies

- The national policy aims at increasing the level of food processing from 2 per cent to 10 per cent in 2010, and to 25 per cent in 2025.
- Institutional credit by banks and financial institutions increased from US\$ 17.41 billion (Rs 80,000 crore) during 2003-04 to about US\$ 23.76 billion (Rs 105,000 crore) in 2005-06.
- Full repatriation of profits and capital is allowed.
- Automatic approvals for foreign investment up to 100 per cent, except in few cases, and also technology transfer.
- There is zero duty on import of capital goods and raw material for 100 per cent export-oriented units. Customs duty on packaging machines reduced from 15 per cent to 5 per cent, and central excise duty on meat, poultry and fish has been reduced to 8 per cent from 16 per cent earlier.
- New industries in the fruits and vegetables segment are allowed an income tax rebate (100 per cent of profits for five years and 25 per cent of profits for the next five years), besides institutional and credit support.

## All key segments offer potential for investment and growth

Segments can be assessed for attractiveness based on size, growth, penetration levels and level of organisation

Segment	Size—output/value (2007–08)	Projected growth	Processing levels	Percentage of organised players
➔ Dairy products	US\$ 62.67 billion	15%	37%	15%
➔ Fruits and vegetables	2.33 million tonnes	20%	2%	48%
➔ Meat and poultry	US\$ 13 million	10%	1%	5%
➔ Fisheries	6.4 million tonnes	20%	12%	N/A
➔ Packaged foods	US\$ 2 billion	8%	3%	80%
➔ Beverages	US\$ 155 million	27%	N/A	77%

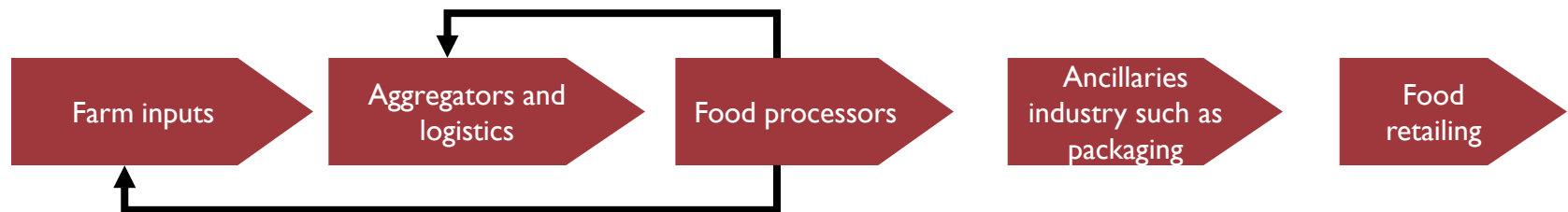
Fruits and vegetables, dairy products and fisheries are the most attractive segments for investments

## New business models are emerging, as manufacturers look to integrate backward along the value chain

The Government of India is looking to promote terminal markets in eight cities — Mumbai, Nashik, Nagpur, Chandigarh, Rai, Patna, Bhopal and Kolkata

### Terminal markets

Public-private partnership (PPP) investments in one-stop modern markets offering grading, sorting, electronic auctioning, quality testing, cold storage and banking facilities



### Contract farming

The farmer is contracted to crop on his land and the produce of an agreed yield and quality is bought by the processor at an agreed price

Several players have successfully tried out contract farming in India. These include MNCs such as Pepsico Ltd

## Attractive states for Investing

- The food processing has immense potential for both revenue and employment generation. Several states have, therefore, undertaken schemes and programmes for bolstering this industry.
- Some of the states that have gone an extra mile by providing various fiscal as well as non-fiscal initiatives include Andhra Pradesh, Punjab, Madhya Pradesh, Uttar Pradesh and Karnataka.

State	Andhra Pradesh	Punjab	Uttar Pradesh	Madhya Pradesh	Karnataka
Investment opportunities	High	High	High	Moderate	Moderate
Fiscal incentives	High	High	High	High	High
Non-fiscal incentives	High	Moderate	High	High	High
Overall attractiveness	Very High	High	Very High	Very High	High

## Brief case studies of successful MNCs — Indo Nissin Foods

Nissin Foods entered India in 1988 through a joint venture with Brooke Bond India Ltd (Brooke Bond later merged with HLL) to form Indo Nissin Foods Ltd

### Key success factors

#### Early entry in ready-to-eat food market:

One of the early players in the Indian ready-to-eat food market, it has been offering instant noodle cups since 1991. This helped the company to take an initial lead over its competitors.

#### Targeting specific consumer base:

Indo Nissin foods has always been innovative in terms of new product development and has launched new, innovative products in India to cater to specific user segments. For example, it launched cup noodles in order to target the youth segment.

#### Adapting products to local taste:

The company adapts product to local tastes. It has put emphasis on studying local tastes, culinary traditions and eating habits of the country in which it operates. This strategy has helped it in increasing sales in the regions of operation.

## Brief case studies of successful MNCs — Perfetti Van Melle

Perfetti Van Melle India, a 100 per cent subsidiary, started operations in India in 1994 with the setting up of its factory at Manesar, near New Delhi.

### **Key success factors**

#### **Innovative products:**

Perfetti Van Melle has introduced several innovative products such as Center Shock, Alpenliebe Swirl and Happydent Gum.

#### **Strong brand building:**

The company has focussed on building its brands through effective advertising and promotions. Examples include brands such as Alpenliebe, Big Babol, Chlor-mint — all brands built in the last decade.

#### **Constant re-invention of brands:**

The brand Cofitos was relaunched at a lower price point because of market demand and variants of Alpenliebe were launched in the year 2002 to take the brand forward.

## Key takeaways for investors

The nature of the Indian food processing market and the experiences of successful Indian and MNC players indicate the following key success factors for growth in this sector:

1. Effective distribution network and supply chain
2. Product range that is customised to suit local market requirements
3. Superior processing technology
4. Brand building and marketing

## Profiles of key players ... (1/4)

Player	Segment	Products	About the company
Dabur India Ltd	Beverages and culinary	Fruit juice, cooking pastes, coconut milk, tomato puree, lemon drink, chilli powder and honey	<ul style="list-style-type: none"> <li>• Closely-held listed company with promoters' holding at 78.4 per cent of the total share capita</li> <li>• Dabur Foods is a 100 per cent subsidiary of Dabur India</li> <li>• Turnover of US\$ 600 million in 2007–08</li> </ul>
Gits Food Products Pvt Ltd	Snack foods and dairy	Sweet mix, namkeens, snack mixes, meal mix, pure ghee, dairy whitener and milk powder	<ul style="list-style-type: none"> <li>• Gits exports to Europe, the UK, the US, Australia, Canada, and the Middle East; exports account for approximately 35 per cent of its total revenue</li> <li>• Gits is an unlisted, private family-owned business</li> </ul>

## Profiles of key players ... (2/4)

Player	Segment	Products	About the company
Haldiram Marketting Pvt Ltd	Snack foods	Sweets, namkeens, syrups, crushes, chips and papads	<ul style="list-style-type: none"> <li>• Started in 1936</li> <li>• Major share in the namkeen and snack food market in India</li> <li>• Strong presence in northern India, especially in New Delhi</li> <li>• Exports to the US, the UK, Canada, Australia, Singapore and the UAE</li> </ul>
MTR Foods Ltd	Snack foods, ice creams	Ready-to-eat curries and rice, ready-to-cook gravies, frozen foods, ice creams, instant snack and dessert mixes, spices (turmeric, coriander, black pepper), pickles and papads	<ul style="list-style-type: none"> <li>• Turnover was estimated at US\$ 36 million in 2006–07</li> <li>• An ISO 9002 and HACCP certified company, it is amongst the top five processed food manufacturers in India</li> <li>• The company was recently acquired by Orkla, a Norway-based company</li> </ul>

## Profiles of key players ... (3/4)

Player	Segment	Products	About the company
Parle Agro Private Ltd	Beverages and bottled water	Fruit drinks and mineral water	<ul style="list-style-type: none"> <li>• Leading player in the fruit-based beverages segment and the bottled water segment</li> <li>• Its flagship product is the fruit-based drink Frooti Mango, which has 75 per cent market share</li> </ul>
Hindustan Unilever Ltd (HUL)	Beverages, staples, dairy, snack foods	Tea, instant coffee, biscuits, ice-creams, salt, wheat flour, instant drinks, soups, jam and squash	<ul style="list-style-type: none"> <li>• The parent company Unilever holds 51.55 per cent of HUL's equity. Unilever is a Fortune 500 transnational, which sells food, home and personal care brands in about 100 countries worldwide</li> <li>• India's largest fast moving consumer goods company, with leadership in home and personal care products, and foods and beverages</li> <li>• HUL's brands, spread across 20 distinct consumer categories, had combined volumes of about 4 million tonnes and sales of US\$ 3.4 billion in 2007–08</li> <li>• HUL's foods segment accounted for 9 per cent and beverages for 12 per cent of its business in 2007–08</li> </ul>

## Profiles of key players ... (4/4)

Player	Segment	Products	About the company
Britannia Industries Ltd	Bakery products	Biscuits, flavoured milk, dairy whitener, ghee, bread, cake and rusk	<ul style="list-style-type: none"> <li>• A leading player in the Indian organised biscuit market with nearly 30 per cent value share</li> <li>• The Nusli Wadia group, one of the oldest business houses in India, and Groupe Danone, French multi-products food company, equally share the 48.5 per cent promoter holding in Britannia</li> <li>• Estimated sales of US\$ 650 million in 2007–08</li> </ul>

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